LEGISLATIVE
JAN 25 1989
EDMONTON

ECONOMIC AND BUDGET UPDATE

1988-89

ALBERTA

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December, 1988

This update provides a brief overview of provincial economic and budgetary developments since the presentation of the 1988 Budget.

THE ALBERTA ECONOMY

The Alberta economy has recovered more strongly than was expected when the 1988 Budget Address was presented in March. Alberta's real Gross Domestic Product (GDP), the volume of all goods and services produced in Alberta, is now expected to grow by about 6% this year. This would make Alberta the fastest growing province in Canada.

Alberta exports have grown at a rapid rate in 1988, a major factor in Alberta's forecast economic performance. This strong expansion of trade into all major markets in 1988 is expected to continue into 1989. A major source of export strength is in natural gas sales to the United States which will top 1.2 trillion cubic feet, a new record.

New investment has also provided a major stimulus to our economic growth this year above our earlier forecasts. Major projects are now underway or recently announced in the pulp and paper industry, meat packing and manufacturing. These projects will contribute not just to economic growth in 1988 but also to long-term diversification. Oil and gas industry investment has recovered significantly in 1988, reflecting drilling plans that were committed or underway before oil prices weakened. The extension of provincial incentive programs and the recent OPEC agreement should strengthen confidence in the energy industry as we enter 1989.

The outlook for agriculture is also brighter now than it was earlier this year. Although certain southern and eastern areas of Alberta experienced serious drought, the central and northern areas generally enjoyed very good crops. Agriculture has also benefited from sharply higher grain prices and continued strength in the livestock industry.

Alberta's employment picture has also improved markedly this year, reflecting the strengthening economy. In the first eleven months of 1988, 28,000 new jobs were created. In November of this year, 1,200,000 Albertans were employed. These new jobs, plus the benefits of the provincial income tax reduction which took effect in July, are expected to lead to strong growth in consumer expenditure in 1988. Alberta's inflation rate is expected to average 3% or less this year, the second lowest increase in Canada.

A number of major developments since the Budget have increased confidence in Alberta and will help ensure continued strong growth into the 1990's. The Husky oil upgrader, the OSLO oil sands project, new petrochemical plants and more forestry projects are expected to get underway over the next few years. The Free Trade Agreement with the United States will also spur long-term growth in Alberta.

ALBERTA'S BUDGET SITUATION AND OUTLOOK

In 1987-88, the government developed a fiscal plan to take the province from a deficit of almost $3.5 billion in 1986-87 to a balanced budget over the next four years. For the first two years, the cumulative deficit was targeted at $3,029 million. The two-year cumulative deficit is now forecast at $2,433 million. We are $596 million ahead of the four year plan at the end of the second year.

COMBINED DEFICIT
(millions of dollars)

	1987-88 Actual	1988-89 Forecast
Medium-Term Plan Target	1,929	1,100
Projected Deficit	1,062	1,371
Difference	867	(271)
Amount Ahead of Plan	867	596

FIRST YEAR, 1987-88 FISCAL PERFORMANCE

The 1987-88 actual combined deficit was $867 million lower than the plan target for the first year. This strong performance was due primarily to higher than anticipated oil prices and higher revenue from the sale of drilling rights. As well, expenditure was held to budgeted levels. Total expenditure on employment, education, health and help for the disadvantaged and those in need declined by less than 1% over the 1986-87 level. By comparison, general government spending on departments and agencies declined by 14%.

SECOND YEAR, 1988-89 FISCAL PERFORMANCE

The 1988-89 combined deficit is forecast at $1,371 million. This is $536 million higher than the 1988 budget estimate but only $271 million above the fiscal plan target for the second year. The relative decline in performance is due to lower expected resource revenue and higher expenditure.

Revenue

The 1988 Budget was based on the assumption that oil prices (WTI) would average US $18.50/bbl in 1988-89. This was in line with the expectations of analysts at that time.

Although oil prices were strong at the start of the fiscal year, they weakened as several OPEC members produced more than their quotas. The average oil price for 1988-89 is now expected to be about US $16.00/bbl.

Lower oil prices are expected to reduce revenue from oil royalties, the sale of drilling rights, and corporate income taxes from resource sector firms. In total, non-renewable resource related revenue is expected to be $690 million below the budget estimate.

Alberta has requested an interim payment of $270 million as a claim against the federal government under the stabilization provisions of the fiscal arrangements act in respect of the 1986-87 revenue downturn.

Based on these changes and an increase of $74 million in revenue from other sources, 1988-89 combined revenue is now forecast at $9,473 million.

Expenditure

Since the 1988 Budget, the government has responded to several additional funding requests including water supplies and drought assistance, disaster assistance to victims of severe weather, extension of the electric energy shielding program and grants to local governments and post-secondary institutions. The government has also announced that additional funds will be made available to health, education and other government priorities. In total, approximately $400 million in supplementary funds will be provided to meet the needs of Albertans.

After taking into account anticipated year-end savings of $300 million in general government operations and other programs, including the overall net increase in program expenditure for 1988-89, is estimated at $100 million. In addition, debt servicing costs, due to the higher than expected deficit and higher interest rates, are estimated to increase by $90 million to $550 million. In total, the combined 1988-89 expenditure is forecast at $10,844 million.

SUMMARY FINANCIAL PLAN
(millions of dollars)

	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Combined Revenue			
General	8,228	8,574	8,113
Heritage Fund			
Investment Income	1,245	1,245	1,353
	9,473	9,819	9,466
Combined Expenditure			
Budgetary			
Program	10,130	10,030	9,994
Debt Servicing Costs	550	460	405
Heritage Fund			
Capital Projects	164	164	129
	10,844	10,654	10,528
Combined Deficit	1,371	835	1,062

FISCAL PLAN PERFORMANCE

(millions of dollars)